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SBI slashes bulk deposit rates by up to 1.9%

By ET Bureau | Updated: Nov 24, 2016, 10:58 AM IST

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MUMBAI: [State Bank of India](#) has lowered rates on bulk deposits between 125 and 190 basis points or bps (one bps is 0.01%) across various [maturities](#), paving the way for lower interest rates in the system. In many baskets, the revised interest rates from India's largest bank by market share of deposits and loans are lower than returns on savings bank accounts, which are currently set at a minimum 4%.

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The cut in deposit rates is because of a fall in the cost of funds, as the banking system is flush with funds ever since the government scrapped Rs 500 and Rs 1,000 notes as legal tender on the evening of November 8.

[Banks](#) have received about Rs 5.4 lakh crore as deposits between November 9 and November 18, according to RBI data. Of this, State Bank alone received Rs 1.5 lakh crore as deposits. No data has been released after November 18.

[SBI's](#) move is likely to be followed by other banks lowering deposit rates. "A rise in deposit base will allow banks to lower the blended cost of funds as higher CASA deposits help to replace the high cost of borrowing and lower overall cost of funds," said Shubhada Rao, chief economist at Yes Bank. "We expect banks to reduce deposit rates by 75-100 bps over the next 6-9 months," she added. A substantial rise in funds with banks may result in further rate cuts by the Reserve Bank as well.

"The recent demonetisation of high denominated currency is likely to lower growth and inflation on the back of a contraction in money supply," said Pranjul Bhandari, chief India economist at HSBC. "This makes us more confident of our call of a 25bp rate cut in this fiscal year." Bulk deposits refer to those between Rs 1 crore and Rs 10 crore.

The new rates will be applicable from November 24, according to the new rate card posted on the bank's website.

The rate cuts are the lowest for deposits with a maturity period between 7 and 45 days where the return has been slashed by 125 bps from 5% to 3.75%. The rate cuts are highest for the deposits with a maturity period between 180 and 210 days where the return has been slashed by 190 bps from 5.75% to 3.85%. Interest rates on deposits maturing between 211 days to one year has been cut from 5.75% to 4%. For deposits from one to three years rates have been lowered by 175 bps from 6% to 4.25%.

In the new system of marginal cost-based lending rates or MCLR, banks have to immediately take into account the lower cost which will result in a decline in lending rates and improved transmission.

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